

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 1303 (Conference Report)

**SHORT TITLE:** Nonprofits Exempt From Admissions Tax.

**SPONSOR(S):**

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b>(\$ Millions)</b>				
	<b><u>FY 2004-05</u></b>	<b><u>FY 2005-06</u></b>	<b><u>FY 2006-07</u></b>	<b><u>FY 2007-08</u></b>	<b><u>FY 2008-09</u></b>
<b>REVENUES</b>					
General Fund					
Amusement Tax		<i>* See Assumptions and Methodology *</i>			
Tobacco Discount	(0.76)	(0.79)	(0.76)	(0.73)	(0.71)
Alcohol Discount	(1.8)	(2.2)	(2.3)	(2.3)	(2.4)
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> North Carolina Department of Revenue.					
<b>EFFECTIVE DATE:</b> The amusement tax change is effective October 1, 2004. The alcohol and tobacco changes are effective August 1, 2004.					

**BILL SUMMARY:** The bill exempts from the 3% gross receipts tax on amusements the gross receipts from youth athletic contests that meet the following criteria: 1) the athletes participating are all 19 years of age or younger; 2) the admission price is \$5.00 or less; and 3) the sponsor of the contest is exempt from North Carolina income tax. The conference report also addresses discounts on tobacco and alcohol products. Previously tobacco and alcohol distributors were able to retain 4% of the tobacco and alcohol taxes they collect as a “discount”. However, per the 2003 budget bill (Chapter 284, section 45A.1), those discounts were eliminated August 1, 2003. This legislation reinstates the discounts, but at a rate of 2%.

**ASSUMPTIONS AND METHODOLOGY:** Currently, state high school championships and the national high school track events are exempt from the gross receipts tax pursuant to GS 105-40(5). The bill does not affect these events. However, Fiscal Research and the Department of Revenue believe the following list of events would currently be taxable and exempted under the bill if an admission fee in excess of 50 cents is charged (GS 105-37.1), unless they meet the exception in GS 105-40(6), which exempts the first \$1,000 of gross receipts if the events are promoted and

managed by a civic organization and the entire proceeds are used for civic and charitable purposes and not to defray the organization's expenses.

- American Legion Baseball
- PONY softball tournaments
- Pop Warner football championships
- Babe Ruth League championships
- AAU events
- Junior Olympics
- Special Olympics
- CASL special tournaments

The Department of Revenue indicates that in 2001-02, approximately \$9.6 million was collected, in total, from the gross receipts tax on amusements. They also indicate that in a recent filing period, approximately 450 different organizations paid the gross receipts tax. However, the Department is unable to determine how many of those 450 organizations would indeed be exempt under the bill, although the number is expected to be relatively small. In addition, the Department of Revenue is not certain that all the potentially impacted organizations are currently paying the tax owed. Therefore, no exact fiscal estimate is possible.

It should be noted that if 1,000,000 tickets were sold at the maximum \$5 ticket price, the total revenue to the state would be \$150,000 under current law. That same amount would be lost under the legislation.

In terms of the discounts, in 2002-03 North Carolina collected approximately \$42.3 million excise taxes from the sale of cigarettes and other tobacco products. Once the amount is adjusted for the 4% discount that was in place at that time, actual taxes collected by wholesalers were approximately \$44.1 million. In 2004-05 that adjusted amount is expected to be \$41.1 million, once the effective date of the elimination of the discount is taken into account. Of the \$41.1 million, approximately \$1.66 million is expected because of the elimination of the discount. In future years, those numbers are expected to decline by 4% each year as a reflection of the overall decline in cigarette tax revenues. Because the amendment reinstates the discount, but at one-half the previous rate, there is a negative fiscal impact. The amount listed in the fiscal impact box for 2004-05 is adjusted to reflect the August 1 effective date.

The estimate for the 2% alcohol discount is based on the five-year projection of beer and wine excise tax collections prepared by the General Assembly's Fiscal Research Division.

	(\$Million)				
	<u>04-05</u>	<u>05-06</u>	<u>06-07</u>	<u>07-08</u>	<u>08-09</u>
Beer Excise Tax	91.74	93.24	94.88	96.54	98.17
Unfortified Wine Excise Tax	11.60	12.37	13.25	14.19	15.17
Fortified Wine Excise Tax	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>	<u>1.13</u>	<u>1.11</u>
Total Collections	104.54	106.79	109.28	111.86	114.45
2% Discount	2.2	2.2	2.3	2.3	2.4

The revenue loss for FY 2004-05 is for ten months (\$1.8 million) due to the August start date and a one-month lag in collections.

**SOURCES OF DATA:** N.C. Department of Revenue

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:** Linda Struyk Millsaps and Richard Bostic

**APPROVED BY:** James D. Johnson, Director  
Fiscal Research Division



**DATE:** June 18, 2004

**Signed Copy Located in the NCGA Principal Clerk's Offices**